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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 004041

SIPDIS

DEPT PLS PASS TO DEPT OF AGRICULTURE

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TAGS: [EAGR](#) [ECON](#) [ELAB](#) [EFIN](#) [IZ](#)

SUBJECT: MOVING TOWARDS FOOD SUBSIDY REFORM

REF: A. BAGHDAD 3805

[B](#). BAGHDAD 2821

Classified By: ECON MINCOUNS Thomas Delare, Reasons 1.4 b/d

[1](#). (C) Summary: The Public Distribution System (PDS) for food has failed to ensure adequate food to needy Iraqis. It is inefficient, underfunded, and corrupt. The proposed 2006 budget includes provision to zero out GOI funding to the PDS over the next four years (reftel A), and planning is underway for an introduction of a safety net that would aim to provide the most needy Iraqis with cash payments as the PDS gradually disappears. End summary.

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PDS - What is it?  
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[2](#). (U) The purpose of the PDS program is to provide food rations to 100% of the Iraqi population. Total budgetary cost is \$4 billion. It is widely regarded by outside observers as an inefficient and corrupt welfare tool. Created by Saddam, it has evolved from a means to meet the nutritional needs of the genuinely poor into a bloated system that has become regarded as a "right" by much of the population. Aside from direct costs, it has helped disrupt normal agricultural production by destroying the normal agricultural market for domestic products.

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PDS Problems  
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[3](#). (SBU) The PDS has not met its object of ensuring food security for Iraqis. We have nothing to contradict 2003 data from the UN World Food Program (WFP) that says that 25% of Iraqis are dependent on the PDS for food. While PDS failure is partially attributable to insufficient funding, inefficiency and corruption in the operation of the PDS are also key factors.

[4](#). (SBU) The food distribution problems caused by insufficient funding and PDS inefficiencies and corruption are widespread throughout Iraq. However, the impact is most severe in impoverished areas. A 2005 USAID study of 17 of Iraq's most impoverished districts found that over half of the surveyed households sometimes or often did not have enough to eat. These highly dependent households are located for the most part in Ninewa and Anbar provinces (primarily Sunni in makeup) and scattered locations throughout southeast Iraq (mainly Shi'a).

[5](#). (C) Corruption is rampant. Drivers transporting food between Trebil, on the Jordanian border, and Baghdad must frequently stop in Ramadi to pay a "fee" to the local mosques or not be allowed to pass. In April of this year, over 30 MoT trucks were hijacked at a border checkpoint, ten of them stolen, and one driver kidnapped. It is speculated -- by more than one source -- that higher-quality foreign wheat is mixed with domestic wheat at lower quantities than required. The excess foreign wheat is rumored to be sold to finance insurgent activities. Moreover, PDS distribution agents sometimes sell food rations on the black market first, and then substitute lower-quality food in its place for final distribution. Acting Deputy Minister Kais Hassan recently withdrew contracting authority from two state-owned-enterprise (SOE) Director Generals because of their illegal activities (under the current division of labor, MoT runs the PDS program).

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PDS Reform Plans  
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[6](#). (C) The Ministry of Finance (MoF) has stated that it will decrease the PDS budget by 25% (the 2005 budget as baseline) per year over the next four years. The proposed budget for 2006 under this scenario will be \$3 billion. Beginning 2006, MoT plans to eliminate soap, powdered milk, detergent, tea, and lentils -- the least important items -- from the food basket. Beyond that, Abdul Kareem Fajer, Acting DG for Foodstuffs, an SOE operated by MoT, told us: "There is no clear vision on reform."

17. (SBU) USAID's Agriculture Reconstruction Development Program in Iraq (ARDI) recommends that PDS recipients be given a choice between food and money so those who wished to could buy food on the open market. While encouraging private-sector development, this approach could also provide significant savings to GOI because ARDI's plan would offer money equivalent to the market value of PDS rations (approximately \$11), rather than the higher amount that GOI pays for the food (approximately \$50). Also, ARDI's plan could reduce corruption by eliminating a large number of state contracts to procure food.

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A Safety Net for the Most Needy  
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18. (SBU) Iraq's current safety net provides \$35 per month to each family with a monthly income lower than this amount, resulting in coverage of 3% of Iraq's 4,452,000 families. The amount does not vary according to family size, and coverage stops once one child in the household reaches the age of 18. We do not believe that \$35 per month is enough to cover the needs of the poorest families, especially since the average family size in Iraq is six.

19. (SBU) USAID is working with MoF and MoLSA to help them develop a plan for a new safety net that could be implemented in conjunction with a PDS phase-out. Current thinking envisions coverage of all families with a monthly income of less than \$1 per day per individual, about 20% of Iraq's households. The size of the aid payment would vary according to family size and overall income. Eligible families would also receive an additional payment for each child below the age of 18. The plan would also provide for vocational training, micro-financing, and other assistance programs. The total budget would be approximately \$350 million, and the benefit would be revised every quarter and indexed in order to preserve the purchasing power of poor families.

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Moving Forward  
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10. (C) Comment: USG is working with this government and will continue to do so with the next to develop a unified position with the goal of implementing a social safety net targeted on the genuinely needy. So far, we have limited buy-in, with the Ministry of Finance a strong ally. However, anti-reform pressures will be exerted by those profiting from the current corruption. In addition, it is unclear what position will be taken by either the new government or national assembly. End comment.  
Khalilzad